



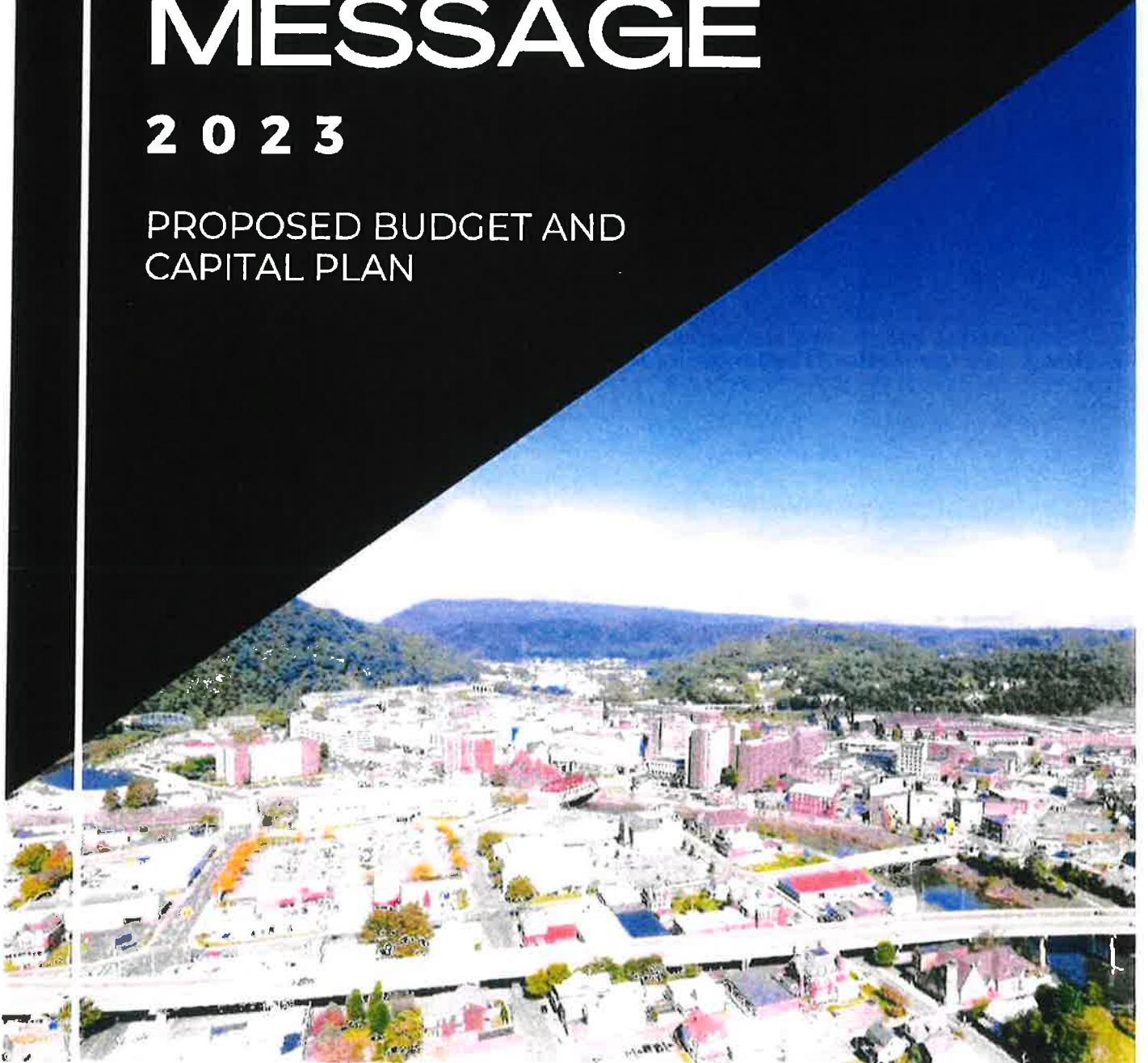
CITY OF JOHNSTOWN

CITY MANAGER'S

BUDGET MESSAGE

2023

PROPOSED BUDGET AND
CAPITAL PLAN





BUDGET MESSAGE:

The 2023 budget submitted and discussed here provides a complete financial plan of all City funds and activities for the ensuing fiscal year. The presentation of information, data, policies and historic trends complies with the City's Home Rule Charter, the Administrative Code and regulations of the Commonwealth of Pennsylvania. I met with each department head several times to discuss their capital and general fund budgets. They are the experts in their fields and capably provide guidance and advice on how City funds should be efficiently and responsibly spent. In addition, I worked very closely with the Director of the Finance Department to develop this budget. City staff takes budget development and administration very seriously. I sincerely appreciate their efforts and support in this annual endeavor.

The unquestionable highlight of this budget is the City of Johnstown's exit from the Commonwealth's program for financially distressed municipalities, Act 47, in spring of 2023. This will be a major financial change for the City. It is an overall positive sign, and an indicator that the City's underlying financial health is recovering sufficiently to eliminate state oversight and control that comes along with Act 47 status. Shedding the negative Act 47 moniker should provide a boost in positive marketing opportunities and a better investment climate in the City.

However, leaving the Act 47 program will present its challenges. Most notably, the City will experience a significant decline in revenue generated from the Local Services Tax (LST). The Commonwealth allows municipalities in the Act 47 program to charge a significantly higher LST rate, which results in approximately one million dollars of revenue for the City of Johnstown. In 2023, the City of Johnstown's LST rate will return to that of a non Act 47 municipality, and the City will need to act prudently to absorb this loss in revenue.

City staff and elected officials initiated discussions with local legislators about a legislative amendment to the state budget that would allow the City of Johnstown to continue to collect the LST at the higher rate. Additional funding through this proposal would be directed to the police and fire departments. Initial conversations with local legislators have been positive to the point where there is a real possibility the previous LST rate will be enacted for 2024. In the interim, lost revenue funds from the American Rescue Plan Act will ensure that City services are provided with continuity.



Also of note, this budget contains no increase in taxes. It is important to consider that should the efforts to reinstate the higher LST rate fail, a tax increase would most likely be needed in 2024. The need for a tax increase would also be driven by unprecedented inflation that continues to occur and impact departmental budgets to varying degrees. But the loss of LST revenue, if permanent, would be difficult to recoup by cutting services alone.

A budget workshop is scheduled for Wednesday, November 2nd. At this workshop, staff will present this abstract and highlights of the 2023 budget as proposed. A public hearing will also be held to provide the opportunity for public feedback and input on the budget. It should be noted that this will be the first budget adopted under new budgetary procedures approved by City voters in a 2021 referendum. The change that will have the largest impact is that the budget will now be adopted by resolution rather than ordinance. Amendments to the budget will also be accomplished by resolution. It is anticipated the budget documents and tax levies will be adopted at the December 14th City Council meeting.

Overall, the financial picture for 2023 is steady. The City's emergence from Act 47 will necessitate continued monitoring of the City's financial outlook. Services need to be aligned with a level tax base and declining population. City department heads are cognizant of this situation and work within their budgets accordingly.

The annual budget is the most important document that City Council adopts during the year. It serves as the policy guide for the coming year and a planning document for the next five years. In very simple terms, it is the embodiment of the old saying, 'put your money where your mouth is'.

Respectfully Submitted on October 31, 2022,

A handwritten signature in blue ink, appearing to read "E. Imhoff".

Ethan Imhoff
City Manager



2023 BUDGET FUNDS

The table below presents base level revenues and expenditures for the eight 2023 budget funds. Expenditures in all funds remain consistent from 2022 levels, reflecting Council's commitment to control expenses while ensuring the continued delivery of services in the most cost-effective manner.

	Revenues	Expenditures	Surplus
General Fund Budget	\$15,100,787	\$15,100,787	\$0
Capital Improvements	\$1,835,525	\$1,815,525	(\$20,000)
ARPA Fund	\$534,800	\$18,249,310	(\$17,714,510)
CDBG Fund	\$4,269,224	\$4,269,224	\$0
State Home Fund	\$1,468,752	\$1,468,752	\$0
UDAG	\$376,500	\$376,500	\$0
State Grants Fund	\$1,399,315	\$1,399,315	\$0
Liquid Fuels Fund	\$583,028	\$583,028	\$0



ESTIMATED INCOME

TAXES

With the exception of the previously discussed Local Services Tax (LST), the City's continuing and main sources of revenue - real estate taxes, earned income taxes, mercantile taxes - will remain level through 2023 and into 2024. An increase in taxes is not part of the 2023 budget as proposed.

A slight increase is projected for the amount of real estate tax revenue collected, a post pandemic trend. Earned income tax is projected to be flat. City staff is working with the City auditors on recouping past mercantile and business privilege taxes that were not paid by local businesses. So it is anticipated those revenues will increase for 2023 and then return to more steady levels.

Additionally, deed transfer taxes that increased slightly in 2022 are projected to flatten out or decline in 2023, as the real estate market continues to cool at the current time due to inflationary factors. Short term trends in the real estate market will continue to be volatile and unpredictable, making future projections about this revenue source difficult.

City staff will be revamping the City's schedule of fees charged for building and zoning permits, last updated in 2015. The current fee schedule for these services is not advantageous to the City, and charges fees that are very low and do not recoup expenditures by staff to enforce various building and zoning codes. Once the update is complete, additional revenue is expected from this line item that will help support the City's code enforcement efforts.

The City is also in the process of updating its amusement tax, mercantile tax and mechanical device tax ordinance, along with enforcement procedures. Many of these ordinances are outdated, which makes collection problematic for staff and consultants charged with collecting these funds.

*The average taxpayer pays approximately \$422 per year in City real estate taxes. The City real estate tax represents only thirty-nine percent of the total property tax bill paid by City taxpayers.



AMERICAN RESCUE PLAN ACT (ARPA)

A relatively new revenue source for the City is the interest earned from \$30 million of American Rescue Plan Act (ARPA) funds received from the federal government to mitigate the impacts of the Covid 19 pandemic. All of the funds are now in the City coffers. Federal law permits local municipalities to capture the interest on these funds prior to being spent. Finance Department staff placed the funds in interest bearing certificates of deposit in 2022 that will yield \$534,800 of revenue for the City's 2023 budget.

2023 GRANT FUNDING

State Fire Consolidated Grant	\$14,500
Local Fire Consolidated Grant	\$10,000
PA Small Water & Sewer Grant	\$400,000
DCED Grant - City Manager	\$108,333
Cops Grant	\$100,000



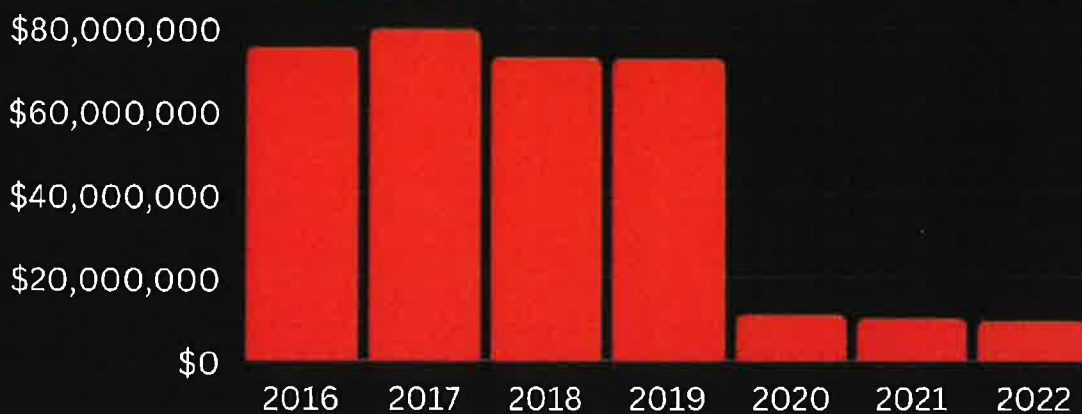
DEBT ANALYSIS

Prior to 2020, the City of Johnstown's debt load reached levels that if left unabated would have resulted in a severe contraction of City services or quite possibly municipal bankruptcy. At that time, the City's debt stood at over \$70 million, or nearly five years worth of general fund revenue. The severely underfunded City pension program resulted in levels of debt that were soon to become unserviceable given the City's declining tax base, high rate of non-profit land ownership and population decline.

Fortunately, and with the assistance of the Act 47 team, the City was able to sell its sewer system, resulting in a windfall that was able to be applied to the underfunded pension system. With this infusion of funding, the pension system was made whole, and financial resources could be devoted to other City priorities.

At approximately ten million dollars, the City's debt load in 2023 will continue to be manageable, primarily due to responsible budgeting and the sale of the sewer system in 2020. Approximately one million dollars of City funds will go towards existing debt service in 2023.

DEBT HISTORY



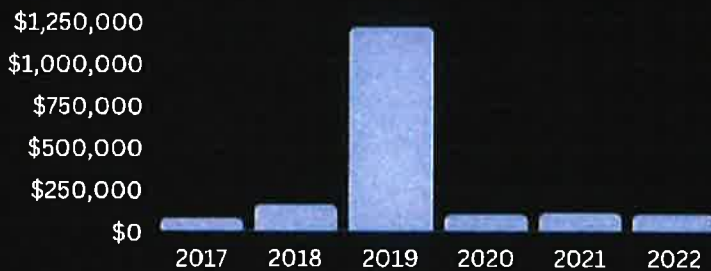
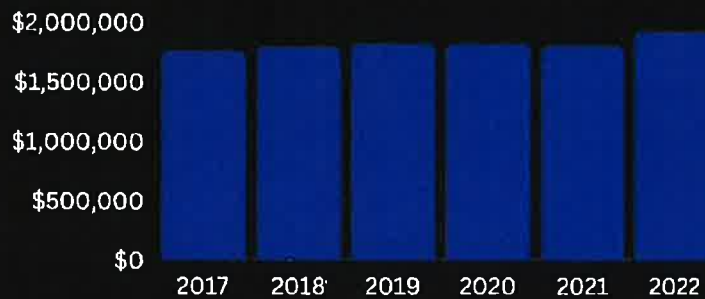


ANALYSIS OF GENERAL FUND REVENUES

ACT 511 TAXES

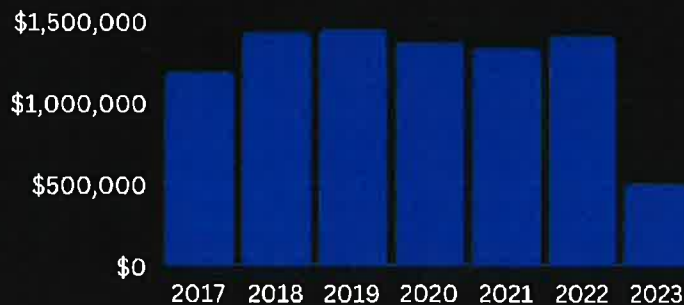
The charts below illustrate consistent collection patterns for all Act 511 taxes (real estate transfer, earned income and local services tax). The abnormally high amount of real estate transfer tax in 2019 was due to the transfer of the hospital to private ownership.

Earned Income Tax Revenue Trend



Real Estate Transfer Tax

Local Services Tax Revenue





PARKING

Parking revenues have undergone some changes over the past year due to technology upgrades and changes to the schedule of fees and fines. The City increased parking rates and the cost of tickets in 2022. The City also adopted technology allowing those parking in metered spaces throughout the City to pay via an app called Passport. Prior to this, people parking downtown could only pay the parking meters with quarters.

What seems to have occurred is that with the higher cost of a ticket, and the available Passport app, a higher percentage of vehicle owners are paying the meters. So as a result, fewer tickets were issued this year. Though with the rate increase, revenue from those tickets has remained constant. Cash and electronic revenue from the parking meters increased slightly during 2022. These trends will likely continue for 2023.

In 2023 there are funds budgeted to install pay kiosks on two city blocks. The existing meters are severely outdated and have been for quite some time. This will be the City's first attempt at replacing the meter infrastructure with more modern parking payments systems that can take cash or card.

PROPOSED EXPENDITURES

GENERAL FUND EXPENDITURES

Overall, the general fund is stable and continues to provide sufficient funding for a solid base of community services. Years of financial distress due to the underfunding of the pension plans created a tremendous financial burden. But due to the sale of the sewer system and infusion of funding that essentially cleared the pension debt, the City is in much better financial shape compared to previous years. That said, revenue growth is flat, and the population continues to shrink. Both of these forces will press hard on future budgets. While the City has been able to catch up recently on years of disinvestment, there are still ample financial strains, mostly in the case of aging facilities and infrastructure. The City used to have a much larger population, and the financial resources and tax base are no longer large enough to support an excess of services.



PUBLIC SAFETY

Police and Fire Department costs have been steady in recent years. While some costs have increased, staff vacancies and graduated pay scales for new hires has helped keep total costs down.

However, both the Fire and Police Departments face a reckoning over their facilities. The public safety building that houses the Johnstown Police Department and a component unit of the Johnstown Fire Department is a building that is well beyond its useful life. Initial cost estimates to repair the building indicate a cost that will be equal to or higher than construction of a new facility. Additionally, the two fire stations are in need of major upgrades.

New buildings, major repairs and renovations do not come cheap. Preliminary expenditures were made for design services to explore the possibilities for a new public safety building. Plans are underway to select ground and move forward with a project in 2023. A preliminary cost figure used by staff for a new public safety building is five million dollars.

In addition to the facilities, there is a desire on the behalf of Council to increase the amount of Police Department funding. General and capital fund expenditures are increased over 10% in this budget to account for an increased need and desire for public safety services throughout the City. There are several significant state and federal grant opportunities that could provide an additional \$1.5 million dollars for technology upgrades and retention and attraction bonuses for police officers

STREET PAVING

One change that will be made in 2023 is that PennDot liquid fuels funding will be used to pay for the annual paving program. Previously, general funds were used for street paving, and PennDot liquid fuels funding was used for street lighting costs and repairs. This was an unconventional use of liquid fuels funding, as most municipalities that receive liquid fuels funding use the money to pave municipally owned roads.

This change is made in response to 2022 liquid fuels audit that was rather complicated due to the City's unconventional use of liquid fuels funds. This change will simplify the expenditures of those funds while having no impact on the general fund. General fund revenue that was used to pay for street paving will now be used to cover the costs of street lighting and repairs.



HUMAN RESOURCE FACTORS

The City will be renewing its contract with Highmark for 2023, with a 6.1% increase. Staff negotiated down the increase that was originally slated to be 11%. The City continues to absorb a significant cost to honor past labor agreements that require continuing health care costs to be provided to former employees, and in many cases their family members.

Inflation of 9% during the course of 2022, unprecedented in most employees working careers, makes it impossible for the City to provide cost of living increases that keep pace with inflation. The City cannot afford to raise wages 9% across the board, and in effect the recent inflation makes each employee take a pay cut. Most City employees are part of a collective bargaining unit and contract that stipulates future wage increases. The City will be able to fully honor and comply with those agreements in 2023.



MAJOR 2023 DEPARTMENTAL OBJECTIVES/PROJECTS/ INITIATIVES

POLICE DEPARTMENT

NEW CRUISERS
NEW BODY CAMERAS
ADDITIONAL FUNDING FOR INVESTIGATIVE TEAMS
PRELIMINARY DESIGN WORK FOR NEW PUBLIC SAFETY BUILDING
ADDITION OF RETENTION/ATTRACTION BONUSES

PUBLIC WORKS

BRING NEW SALT STORAGE SHED INTO OPERATION
OVERSEE ARPA FUNDED IMPROVEMENTS AT PASQUERILLA CONFERENCE CENTER
ADMINISTER LOCUST STREET PARKING LOT IMPROVEMENT PROJECT
RECREATION DIRECTOR REMAINS IN THE BUDGET AS A HALF TIME POSITION.

FINANCE

ADMINISTER NEW ENTERPRISE SOFTWARE UPGRADE (JULY COMPLETION TARGET)
GREATER ENFORCEMENT OF BUSINESS LICENSES, BUSINESS PRIVILEGE TAXES AND MACHINE TAXES
GREATER MONITORING OF RENTAL UNITS TO INCREASE EARNED INCOME TAXES

COMMUNITY DEVELOPMENT

MAIN STREET PROJECT WITH RAISE AND ARPA FUNDING

FIRE DEPT

WORK ON UPGRADING FIRE STATIONS
SELL FIRE TRUCK
UPGRADE HYDRAULIC AND RADIO SYSTEMS.

CODES DEPT

FINAL ANNUAL PAYMENT FOR LAND BANK SET UP
ABANDONED VEHICLE ENFORCEMENT
INCORPORATE ADMINISTRATIVE STAFF TO RELIEVE ADMINISTRATIVE WORKLOAD FOR CODE OFFICERS



CAPITAL BUDGET

Capital projects planned in 2023 are targeted towards replacement of aging vehicles, buildings and equipment, many of which were postponed or delayed during the Act 47 years. The department heads are fully capable of administering the few projects planned in each department. Due to the loss of Local Services Tax revenue, there is no money proposed to be carried over from the general fund to the capital budget in 2023. Expenditures from the capital fund in 2023 total \$1,815,525.

The capital budget was previously submitted to Council in writing on August 1. The most substantial changes since that time involve the Police Department budget. Due to the costs involved, many of the increased equipment line items in the Police Department general fund budget have been transferred to the capital budget. Those items involve radio system upgrades, new reporting software, taser contract and body cameras.

The largest item in the capital budget is \$600,000 for street paving and sidewalk restoration work the City is contractually obligated to provide through the sale of the sewer system. It is possible this full amount may not be necessary. However, that will not be known until 2023 when the project comes to a close. This line item is under the public works department section of the capital budget.

A final highlight of the capital budget is seed funding for a new public safety building. While two million dollars is set aside of American Rescue Plan Act (ARPA) revenue for this line item, it is important for the City to also set aside a small amount of general fund revenue for this project. Just \$40,000 is included in the capital budget for the new public safety building. However, the City would like to include this amount annually so that by the time construction commences, a larger amount has accumulated. City funding will also make grant applications for this project more competitive.





LINE ITEM REVIEW

Budget line items with significant changes since 2022 are listed here:

01-331-14-000-00 - District Magistrate Fines and Restitution - Revenue collected from this line item is projected to rise as code enforcement efforts are increased and additional staff are added in the Codes Department.

01-389-38-021-00 - Sale of Property & Supplies - This revenue line item is higher in 2023 due to the anticipated sale of a City owned fire truck that was replaced.

01-389-59-025-00 - American Recovery Act Reimbursement - This line item captures funding from the lost revenue funds contributed towards 2023 revenues to replace funding lost during the pandemic.

01-389-59-030-00 - American Recovery Act Interest Income - This line item captures interest income from American Rescue Plan Act funding invested in certificates of deposit.

01-434-36-106-00 - Public Works Street Lighting - The significant increase in this line item reflects PennDot liquid fuels funding now paying for street paving, with general funds revenue now paying for street lights and repairs.

05-434-37-106-00 - Public Works Street Lighting - The reduction in this line item reflects the above mentioned shift of PennDot liquid fuels funding to street paving work.

01-465-14-000-00 - Codes Salary and Wages - This line items captures the addition of a qualified, full time department manager/building code official, as well as a new administrative position. A portion (20%) of the director salary comes from grant funding from the US Department of Housing and Urban Development. A quarter of the salary of the new administrative assistant position for the Codes Department will also be funded through the US Department of Housing and Urban Development.

01-492-53-000-00 - Transfer to Capital Projects - With the loss of approximately one million dollars in the Local Services Tax, the City is unable to transfer funding in 2023 to the capital projects account.

*Gas & Oil Supplies expenditure line items in Public Works (434), Fire (412) and Police (410) Departments have increased significantly due to the nationwide rise in oil prices over the past year.

LIQUID FUELS

Following the payment for the fall 2022 paving program, the liquid fuels account currently has a fund balance of \$300,028. The 2023 allocation for liquid fuels will be approximately \$583,000. Staff is currently working to identify the lists of streets and alleys for the 2023 paving program, which is scheduled for summer 2023.